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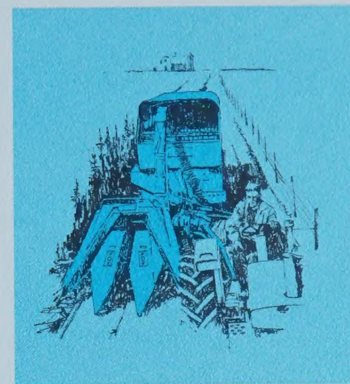
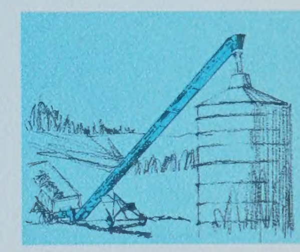
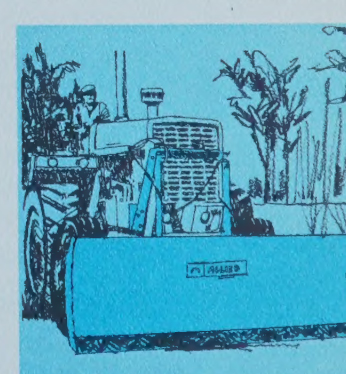
ANNUAL REPORT 1968







ALLIED
FARM EQUIPMENT, INC.

FINANCIAL HIGHLIGHTS YEARS ENDED OCTOBER 31

OPERATING RESULTS	1968	1967	1966	1965 (1)	1964 (2)
Net Sales	$22,534,116	$19,959,222	$16,393,389	$12,860,312	$10,167,253
Income from operations	1,522,132	1,693,368	1,529,310	1,423,970	1,314,832
Interest expense	872,360	667,838	463,989	319,485	86,512
Earnings before taxes	649,772	1,025,530	1,065,321	1,104,485	1,228,320
Net income	332,717	507,366	575,206	574,364	627,253
Net earnings per common share	35c	54c (3)	61c (3)	61c (3)	66c (3)
Common shares outstanding:					
Class A	491,268	467,996	467,996	360,000	360,000
Class B	453,601	432,004	432,004	540,000	540,000
Dividends paid per class A share	10½c (4)	42c (4)	31½c	31½c	—
Total dividends paid on class A shares	19,129 (4)	76,412 (4)	147,419	113,400	—

	1968	1967
Total Assets	$24,266,614	$17,585,982
Current ratio	1.8 to 1	1.6 to 1
Long term debt	7,849,621	3,969,325
Shareholder equity	4,230,762	3,918,068
Book value per share	4.48	4.15 (3)
Number of employees	790	680
Number of manufacturing plants	5	4
Number of distribution facilities	23	16

(1) Excludes $53,284 capital gain on non recurring sale of land in 1965

(2) Pro forma adjustment that includes all operating units then affiliated

(3) Restated to reflect 5% stock dividend paid March 29, 1968.

(4) Dividends of 10½c in 1968 and 42c in 1967 were paid on 182,183 shares; holders of 285,813 shares waived their right to receive dividends in these years.

FELLOW SHAREOWNER:

In fiscal 1968 Allied completed the most far reaching expansion step in its history, adding the entire eastern portion of the U.S. to its marketing territory and creating new opportunities for the years ahead.

However, operating results for the year were disappointing. Although sales rose 12.9% to a new record high, profits decreased sharply.

Volume for the year totaled $22,534,000, as compared with $19,959,000 in the prior year. While to many companies this increase might be gratifying, it was, in our case, substantially below budget forecast, which projected total 1968 volume of $25 million. Unfavorable farm market conditions prevented us from reaching that figure, which meanwhile had been the guideline for the structuring of our operating expenses. These expenses could not be pulled back proportionately as expected sales failed to materialize.

In short, we were programmed for extraordinary sales growth and only moderate growth came, keeping beyond our reach that last 10% of budgeted volume that contained our anticipated profit growth.

Net income therefore declined to $332,717 or 35 cents per share, from $507,366 or 54 cents in the prior year.

Our consolidated sales include $1,316,000 which represent two months sales of McCune & Co., Inc. and the Farm Equipment Division of Frick Company, both of whom were acquired as of

September 1, 1968. The significance of the move can be seen by the fact that broad territorial coverage can help maximize sales opportunities for our own manufactured product lines.

Also, since Allied markets products made by dozens of other companies and serves as their link to the buyer, broad territorial coverage can enable the organization to offer "instant distribution" over a vast range of geography with a single coordinated program.

It's hardly surprising therefore that an important goal in Allied growth has been a planned program of territorial expansion. Beginning with the establishment of a position as the only distribution organization with coast to coast coverage in Canada, Allied in the Sixties extended that scope to include the Pacific Northwest, then the Northern Plains states, then the Midwest, and in 1968 the entire Eastern Seaboard.

This latter step was the acquisition of McCune and Frick referred to above. The Farm Equipment Division of Frick Company, Waynesboro, Pa., has been an important implement distributor and a manufacturer of disc harrows, with fiscal 1967 sales of $3.6 million; and McCune & Co., Inc., has been a major distributor headquartered in Youngstown, Ohio, with fiscal 1967 sales of $4.5 million. The terms of the McCune and Frick acquisitions are contained in the notes to the financial statements.

The benefits which we believe these two acquisitions will bring to Allied are:

1. The opportunity to increase Allied earnings without substantial dilution of equity.

2. The opportunity to maximize profits through consolidation of operations. We believe that this potential moreover can be substantially extended through consolidation. For example, both Frick and McCune maintained separate warehouses in Syracuse, N.Y. One warehouse has already been closed and its operations moved to the other. Also, Frick's Nashville, Ga. distribution and manufacturing facilities can now be used as an economical production point of products for Allied's broad distribution system. Numerous opportunities exist meanwhile, for cost savings through the elimination of other duplicate facilities, accounting and administrative resources and man power.

3. Broadened market coverage. The 20 additional states added to Allied territory by the acquisitions will vastly expand our ability to market Allied products and those made by our suppliers. For the first time with its own facilities, Allied now serves the large agricultural market of Ohio, New York, Pennsylvania, New England, Virginia, West Virginia, the entire Mid-Atlantic and Southeastern Seaboard plus Alabama and Tennessee.

4. The acquisition of two experienced and skilled marketing organizations. Equal in importance to product lines and markets, the acquisition of McCune and Frick brings with it a group of experienced and dedicated management, sales and administrative people who are already proving to be an invaluable asset. Their knowledge of the Eastern agricultural market, its crop trends and its implement needs, will provide the guidance to overall Allied operations in that region.

After three years of development of increased marketing potential at the sacrifice of current earning power, we believe that the stage is set for a return on this long term investment.

James I. Kanter

James I. Kanter, President

NEW PRODUCTS: FRANCHISED LINES

Allied Farm Equipment added significantly to its product line during the year with five new franchised products. Illustrated above is one of the most promising new lines —the **Simplicity** line of riding tractors for care of home lawn and gardens, and snow throwers for home & industrial snow removal. For both product groups, Simplicity, manufactured in Port Washington, Wis., represents the highest quality line in the field. Allied obtained the franchise for Canada, the Dakotas, Oregon, California and part of Idaho. Other important franchise products added were: (1) **The Ackley line of hydraulic pruners and saws** for orchard applications. Allied has the franchise for the entire North American agricultural market. (2) **The Fahse electronic plant thinner,** a machine of German design now used principally on beets, but being expanded to other vegetables. It removes unwanted plants, replacing the work of 12 persons, and its electro-mechanical touch sensor selects the plant to be saved. Allied formerly imported limited numbers of these, already assembled, for performance testing under U. S. conditions. Under a new arrangement, components are imported and assembled at Allied's Manhattan, Kansas, plant for distribution to all of North America, with current emphasis in the beet and vegetable areas of the western half of the United States. (3) **The John Wood portable heater,** used to heat every type of building or enclosure found on a farm. Allied has the franchise for almost all of the United States agricultural market. (4) **The Hi-Power Centrifugal Pump,** manufactured by Scienco, Inc., of Memphis, Tenn. The unit is used to pump atrazine and other agricultural chemicals from the spray tank to the field. Allied has the franchise for most North American agricultural markets. Franchises for additional new lines are presently being negotiated.

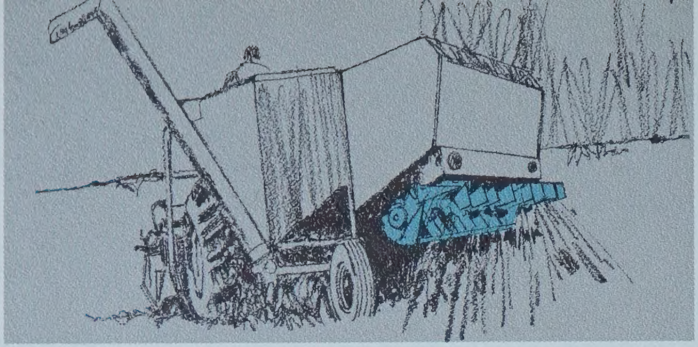
NEW PRODUCTS: FRICK AND MC CUNE ACQUISITIONS

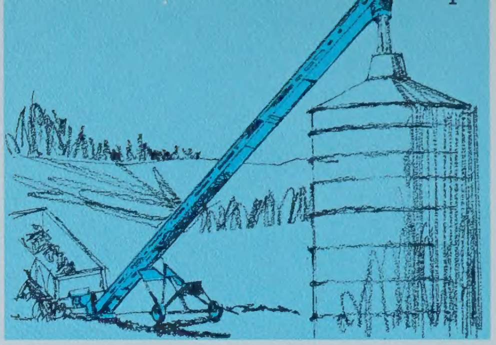
Illustrated above is the **Fox Forage Harvester,** made by Fox River Tractor Co., of Appleton, Wis., which was added to Allied's line through the Frick and McCune acquisitions. Both acquired companies distribute Fox in adjoining territories. The Fox Harvester comes in self-propelled and pull-type models, both of which are established as the top quality lines for their industry. Allied has the franchise for the eastern part of the United States.

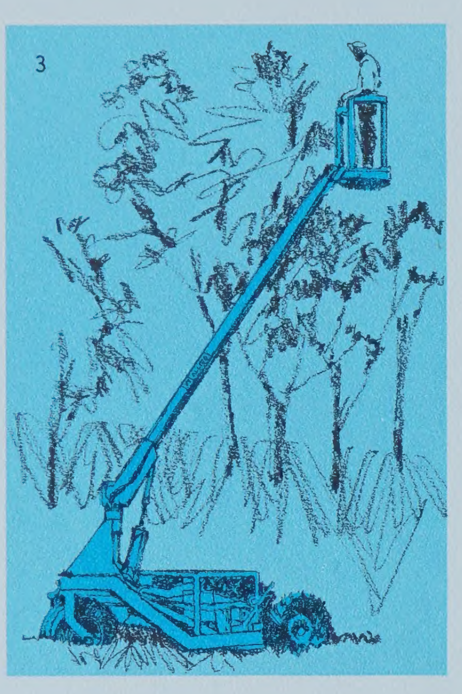
Another major product, not pictured, is the **Nuffield Tractor** which is made by the British Motors Corporation in Great Britain. Nuffield Tractors come in two models, one of 42 horsepower, the other of 60 horsepower. Compared to competitive brands of tractors, the Nuffield represents an outstanding value in dollar cost per horsepower. Its lower price and competitive quality has enabled it to gain acceptance in this cost conscious farm era. Nuffield sales volume in the U.S. has doubled in the last four years. Through the Frick acquisition, Allied acquired the franchise for the northeastern United States, a territory Frick has had for five years.

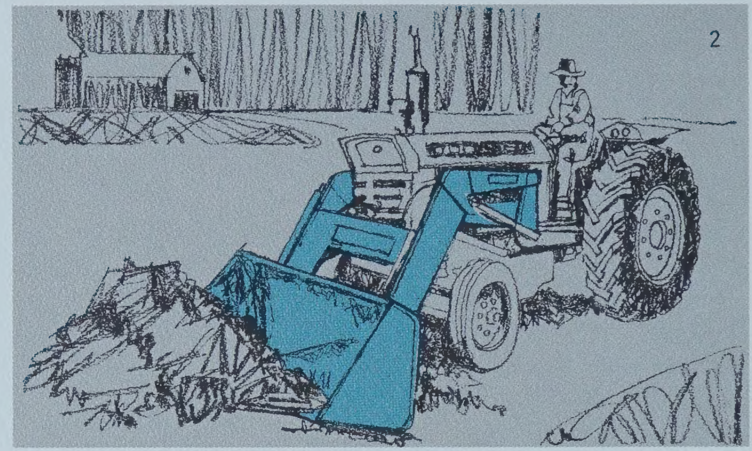
The Frick acquisition also brings with it the **BearCat** line of feed mixer-grinders and roller mills manufactured by the Western Land Roller Company, Hastings, Nebraska. These important products are distributed throughout the eastern seaboard states.

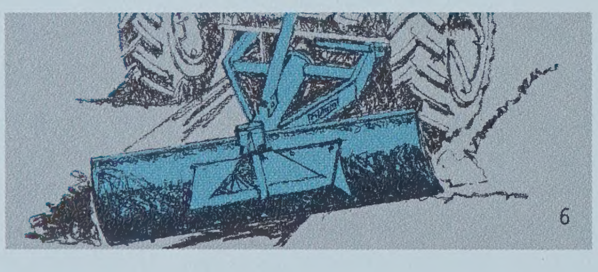
McCune and Frick have a number of additional franchise rights which include many of the most respected specialty lines in the industry. A number of these such as Gilmore-Tatge, Danuser, Century, Burch and others, are already handled by Allied in other areas.

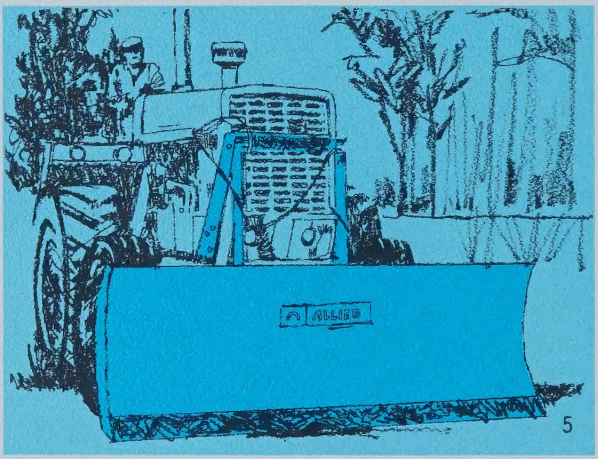












NEW PRODUCTS: "ALLIED" BRAND

An increasing number of products, bearing the Allied name and designed to help the farmer achieve maximum productivity, are moving into the farm markets across North America. Some of these new products are made by Allied; others are manufactured by companies especially for Allied and sold under our name. Six of the most significant of these products added during 1968 are illustrated. They are (1) **The Allied Elevators,** made at Manhattan, Kansas, used to lift corn, other grains, or hay into storage. Vertical heights run from 22 to 40 feet, and by careful engineering, both the hydraulic and manually operated models give longer effective reach (reach beyond the undercarriage) than equal-length elevators of conventional design. These are distributed throughout the United States. (2) **The Heavy Duty Front End Loader,** to give Allied a complete line of agricultural and semi-industrial loaders. Incorporating the latest design features, the 600 has 2600 pounds of lift capacity and the 700 has 3800 pounds. These are distributed throughout North America. (3) **The Allied Girette,** self-propelled orchard lift, with hydraulic drive, and a patented swinging boom that swings the work platform 39 degrees. This swing permits added picking and pruning from one position, and is a unique and important feature. Until this year, Allied had distributed this product under the name of Trump Girette, and only in the northwest part of the United States. Now it is distributed under the Allied label, throughout North America. (4) **The Allied Straw Chopper,** which can be attached to the back of a combine with four bolts, and which shreds and spreads straw and weeds after the grain has been removed. Allied sells this throughout North America. (5) **The Allied Front Dozer Blade Line,** attachable to the front of most agricultural tractors and hydraulically operated from the tractor seat, is used for moving dirt, snow, or other material. Allied has sales rights for eastern Canada and all of the United States. (6) **The Allied Rear Blade Line,** attached behind tractors and used primarily for leveling operations. Allied sells this throughout North America.

In addition to the above, many important new products are under development by the company's engineering group and it is anticipated that this R&D effort will materially add to Allied's sales in future years.

NOTES TO FINANCIAL STATEMENTS

1. Principles of Consolidation: The financial statements include the accounts of Allied Farm Equipment, Inc. and all subsidiaries.

The net assets of the Canadian subsidiaries (in U. S. dollars) totaled $3,966,673 at October 31, 1968.

2. Inventories: Inventories, stated at the lower of cost (first-in, first-out) or market, consisted of the following:

	October 31 1968	October 31 1967
Finished goods	$ 9,923,030	$7,169,729
Work in process	353,455	539,504
Raw materials	486,671	916,944
	$10,763,156	$8,626,177

3. Notes Payable, Banks: Accounts receivable and inventories of certain of the company's subsidiaries in the amounts of $9,471,372 and $5,110,-752, respectively, are pledged as collateral for bank indebtedness totaling $7,267,923. In addition, the principal shareholders of the company have pledged as collateral for certain of these loans $605,000 principal amount of municipal bonds.

4. Federal and Canadian Taxes on Income: The Canadian Department of National Revenue, Taxation Division, has reassessed two of the Canadian subsidiaries an aggregate of $77,000 (included in taxes recoverable) for the years 1954 through 1959 on the grounds that these companies have been associated with each other. Other Canadian subsidiaries may be subject to reassessment on similar grounds in an approximate aggregate of $83,000.

In the opinion of the company and of its tax counsel the reassessments are not based on sufficient grounds. Accordingly, the payments made have been contested and should be recovered, and no provision for additional taxes on income for the years 1954 through 1959 has been reflected in the accounts of the Canadian subsidiaries which have not as yet been reassessed.

Deferred taxes on income arises from differences between financial and tax reporting of depreciation and certain development expenses.

5. 6% Convertible Subordinated Debentures: The Debentures are subordinate for payment to any Senior indebtedness (defined in the Indenture) amounting to approximately $9,700,000 at October 31, 1968. They may be redeemed, as a whole or from time to time in part, at prices decreasing from 105 percent on or before February 28, 1969, reducing one-half percent in each six-month period thereafter. Retirement of the Debentures at 100 percent plus accrued interest through a Sinking Fund in the principal amount of $100,000 in each of the years 1969 through 1979, and $200,000 at maturity, is called for by the indenture. Each $100 Debenture is convertible at any time into Class A shares of the company at $10.24 per share to March 1, 1970 and at $11.67 per share thereafter. Limitations on the payment of cash dividends are more restrictive under the Loan Agreements than under the Indenture (see Note 6).

At October 31, 1968, Debentures in the principal amount of $32,800 were held by the company to apply against the 1969 Sinking Fund requirement.

6. Term Loans: The company is indebted to Teachers' Insurance and Annuity Association of America under two Loan Agreements, the principal provisions of which are enumerated below:

Principal amount	$930,000(a)	$1,000.000
Interest rate	6¾%	6⅞%
Annual principal maturities:		
Years 1969 through 1972	55,800	60,000
Years 1973 through 1980	88,350	95,000
Annual prepayment privileges in whole or in part, in any multiple of $50,000 beginning in	1970	1971
Premium on prepayment decreasing annually through 1979	6¼ to 1%	6⅜ to 2%

(a) Interest and principal payments ($1,000,000) are to be made in Canadian funds on this loan, the principal amounts of which are stated in U. S. funds.

The principal covenants contained in the agreements include the maintenance by the company of consolidated net working capital (as defined therein) of not less than $7,500,000 and the maintenance of a current ratio (on a consolidated basis) of not less than 1.75 to 1. In addition, there is a prohibition against the declaration or payment of dividends (other than stock dividends), any other distribution on its shares and payment of principal amounts on the Frick notes to the extent that such payments and distributions, in the aggregate, exceed 50 percent of the consolidated net earnings of the company after October 31, 1968 (see Note 8).

The total borrowings from financial institutions and indebtedness secured by accounts receivable and inventories may not exceed total accounts receivable. Bank borrowings may be made for operational needs, but not to pay for new acquisitions. In addition, the company must maintain $5,000,000 of unpledged inventories.

7. Mortgages and Notes Payable: Mortgage notes payable are secured by property and equipment. The mortgages and other notes payable bear interest ranging from five percent to seven percent per annum, and are payable in installments maturing as follows:

	Approximate Annual Maturities
During the years ending October 31:	
1969	$186,000
1970	214,000
1971	95,000
1972	19,000
1973	12,000
Total payments thereafter through 1981	123,000

8. Purchase Contracts Payable: The purchase price of businesses acquired is payable during the fiscal years ending October 31, as follows:

1969	$433,000
1970	314,000
1971, 1972 and 1973, each at	286,000
1974, 1975, 1976 and 1977, each at	795,000
1978	21,000

Interest rates on the above debt are: 5% to 6% on $176,329, 1% above the applicable (5¼% at October 31, 1968) discount rate of the Chicago Federal Reserve Bank on $208,620 (the McCune notes) and 6¾% on $4,420,848 (the Frick notes). The McCune notes in the principal amount of $208,620 and the Frick notes in the principal amount of $4,420,848 and warrants to purchase 150,000 shares of the Class A, $1 par value, common stock of the company were issued in connection with the purchase, in the latter part of the company's fiscal year, of the farm implement businesses of McCune & Company, Incorporated and Frick Company. Liabilities of $1,589,438 were assumed in the McCune purchase.

In the event that the principal payment on the Frick notes in any year is less than 25% of the scheduled payment for such year, or if the aggregate of principal payments in any two consecutive years is less than 70% of scheduled payments for such years, the entire principal balance of the notes will become due. If the principal payment in any year is less than 50% of the scheduled payment, or the aggregate of principal payments in any two consecutive years is less than 75% of the aggregate of scheduled payments for such years, Frick may require certain shareholders of the company to elect such designees of Frick as may be necessary to elect a majority of the Board of Directors of the company (see Note 6 for limitations on principal payments). The Frick notes are subordinated to the Term Loans described in Note 6.

The Warrants granted to Frick may be exercised at a price of $10.24 per share through March 1, 1970, and $11.67 per share thereafter, in whole or in part, until one year after the entire principal amount of the notes has been paid, but in no event later than August 31, 1983. A proportionate amount of the Warrants will be canceled upon payment of principal amounts of the notes, until 30% of such Warrants (45,000 shares) are canceled by this method. The Warrants may be exercised by payment of cash or by cancellation at par of principal amounts due under the notes (allocated in proportion to principal amounts of scheduled payments).

9. Capital Shares: The Class A shares are entitled to receive such dividends as the Board of Directors may legally declare. No dividends may be declared or paid on the Class B shares, except dividends payable in Class B shares, and then only if a dividend payable in Class A shares is declared and paid at the same time and the same rate per share on the Class A shares then outstanding. No dividend payable in Class A shares may be declared on Class A shares unless a dividend payable in Class B shares is declared and paid at the same time and the same rate per share on the Class B shares then outstanding. No dividend payable in Class B shares shall be declared on the Class A shares. Each class of shares is entitled to one vote per share on all matters submitted to the vote of shareholders. At October 31, 1968, 226,800 Class B shares were convertible into Class A shares. An additional 113,400 shares are convertible annually, on a cumulative basis, after March 15 of each successive year.

An increase in outstanding capital stock during the fiscal year was the result of a 5% stock dividend paid March 29, 1968 consisting of 23,272 Class A shares $1 par value, and 21,597 Class B shares, $1 par value. Holders of 285,813 shares of Class A shares voluntarily waived the right to receive cash dividends of 10½ cents per share December 1, 1967.

The $1,267,200 of 6% Convertible Subordinated Debentures are convertible into 123,750 Class A shares to March 1, 1970 (see Note 5). See Note 8 relative to Warrants to purchase Class A, $1 par value, common stock of the company.

The company reserved 45,000 of its authorized but unissued Class A shares for issuance upon exercise of options to be granted to key employees of the company under a Qualified Stock Option Plan. The exercise price may not be less than the fair market value of the Class A shares at the date of grant; options may be exercised in installments of 25 percent of the shares during each of the second through the fifth year after date of grant on a cumulative basis. At October 31, 1968 options for 30,162 shares (presently exercisable as to 9,562 shares) had been granted, none of which was exercised. Changes during the year ended October 31, 1968 in options outstanding are summarized as follows:

	Number of Shares	Option Price Range
Outstanding October 31, 1967	26,512	$6.67 - 7.94
Granted	7,325	6.00 - 8.00
Canceled	(3,675)	7.94
Outstanding, October 31, 1968	30,162	6.00 - 8.00

10. Lease Commitments: The company and its subsidiaries occupy manufacturing and office space under various leases maturing between 1969 and 1978, which require the payment, in addition to property taxes, insurance and maintenance, of aggregate rentals of $1,100,000. Annual rentals for 1969 through 1974 reduce from $182,000 to $110,000.

Lease option agreements provide for the purchase of a plant at any time prior to July 31, 1974 at an initial price of $502,200, reducing at an annual rate of $11,044 from November 1, 1964.

11. Depreciation: Depreciation charged to operations (principally on the straight-line method) amounted to $265,836 and $258,002 in the years ended October 31, 1968 and 1967, respectively.

12. Earnings Per Share: Earnings per share are computed on the aggregate of Class A and Class B shares, with retroactive effect of a 5% stock dividend paid on both classes of stock on March 29, 1968. Pro forma earnings per share give retroactive effect to exercise of outstanding stock options and to conversion of the company's Debentures, and to exercise of Warrants from effective date (September 1, 1968).

ACCOUNTANTS' REPORT

To the Directors and Shareholders
Allied Farm Equipment, Inc.
Chicago, Illinois

We have examined the consolidated balance sheet of Allied Farm Equipment, Inc. and subsidiary companies as of October 31, 1968 and the related consolidated statement of earnings and retained earnings, the consolidated statement of paid-in surplus and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the company and subsidiaries for the year ended October 31, 1967. We did not examine the financial statements of the company's subsidiary, Allied Farm Equipment, Inc., a Delaware corporation, which statements were examined by other independent accountants whose report thereon has been furnished to us. Our opinion expressed herein is based upon our examination and upon the aforementioned report of other accountants.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Allied Farm Equipment, Inc. and subsidiary companies at October 31, 1968 and October 31, 1967, and the consolidated results of their operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
December 27, 1968

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

CONSOLIDATED BALANCE SHEETS OCTOBER 31, 1968 AND 1967

ASSETS	1968	1967
Current assets:		
Cash	$ 699,054	$ 980,693
Accounts and notes receivable, trade (Note 3)	10,300,224	5,709,928
Less allowance for doubtful notes and accounts	(350,517)	(199,698)
Inventories (Notes 2 and 3)	10,763,156	8,626,177
Estimated taxes recoverable (Note 4)	195,669	175,120
Other current assets	164,049	225,819
Total current assets	21,771,635	15,518,039
Property, plant and equipment, at cost (Note 10):		
Land	202,279	173,276
Buildings	1,092,856	928,049
Machinery and equipment	1,866,880	1,469,404
	3,162,015	2,570,729
Less accumulated depreciation	1,101,806	845,239
	2,060,209	1,725,490
Other assets:		
Cash value of life insurance, less loans	34,551	21,550
Prepaid expenses and deferred charges	129,917	25,112
Unamortized debenture, term loan and registration costs	147,604	169,633
Patents, trade names, etc., less accumulated amortization	86,061	92,905
Notes receivable, noncurrent portion	36,637	33,253
	434,770	342,453
	$24,266,614	$17,585,982

LIABILITIES	1968	1967
Current liabilities:		
Notes payable, banks (Note 3)	$ 7,267,923	$ 6,317,257
Accounts payable	3,019,920	1,912,292
Accrued liabilities:		
Federal and Canadian taxes on income (Note 4)	188,336	349,138
Other taxes	173,171	120,540
Payroll and other expenses	662,660	374,266
Current portion of long-term debt	802,234	541,363
Total current liabilities	12,114,244	9,614,856
Long-term debt:		
6% Convertible Subordinated Debentures (Notes 5 and 9)	1,267,200	1,361,500
Term loans (Note 6)	1,930,000	1,930,000
Mortgages and notes payable (Note 7)	648,858	818,000
Purchase contracts payable (Note 8)	4,805,797	401,188
	8,651,855	4,510,688
Less current maturities	802,234	541,363
	7,849,621	3,969,325
Deferred taxes on income (Note 4)	71,987	83,733

CAPITAL	1968	1967
Capital stock (Note 9):		
Class A shares, $1 par value: Authorized: 2,000,000 shares Issued and outstanding: 491,268 shares and 467,996 shares	491,268	467,996
Class B shares, $1 par value: Authorized: 1,000,000 shares Issued and outstanding: 453,601 shares and 432,004 shares	453,601	432,004
Paid-in surplus	288,613	19,399
Retained earnings (Note 6)	2,997,280	2,998,669
Total capital	4,230,762	3,918,068
	$24,266,614	$17,585,982

The appended notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

FOR THE YEARS ENDED OCTOBER 31, 1968 AND 1967

	1968	1967
Net sales and operating revenues	$22,534,116	$19,959,222
Cost of goods sold	16,704,799	14,494,977
Selling, general and administrative expenses	4,307,185	3,770,877
	21,011,984	18,265,854
Net income from operations	1,522,132	1,693,368
Interest expense and amortization of financing costs	872,360	667,838
Earnings before federal and Canadian taxes on income	649,772	1,025,530
Provision for taxes on income:		
Federal	133,000	92,000
Canadian	184,055	426,164
	317,055	518,164
Net earnings	332,717	507,366
Retained earnings, beginning of year	2,998,669	2,567,715
Cash dividends paid (Note 9)	(19,129)	(76,412)
Stock dividend, 5% (including $894 cash in lieu of fractional shares)	(314,977)	—
Retained earnings, end of year	$ 2,997,280	$ 2,998,669
Earnings per share (Note 12)	$0.35	$0.54
Pro forma earnings per share (Note 12)	$0.34	$0.50

CONSOLIDATED STATEMENTS OF PAID-IN SURPLUS

FOR THE YEARS ENDED OCTOBER 31, 1968 AND 1967

	1968	1967
Balance, beginning of year	$ 19,399	$19,399
Excess of market value over par value of shares issued in payment of 5% stock dividend:		
23,272 Class A shares	139,632	—
21,597 Class B shares	129,582	—
Balance, end of year	$288,613	$19,399

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED OCTOBER 31, 1968 AND 1967

	1968	1967
Source of funds:		
Net income	$ 332,717	$ 507,366
Depreciation	265,836	258,002
Purchase contracts arising for acquisition of businesses	4,629,468	—
Total source	5,228,021	765,368
Application of funds:		
Net additions to property, plant and equipment	600,555	292,475
Payment of 6% convertible subordinated debentures	100,000	100,000
Payment of mortgages and purchase contracts	649,172	92,419
Cash dividends (includes $894 in lieu of fractional shares in 1968)	20,023	76,412
Deferred taxes	11,746	13,978
Increase (decrease) in other assets	92,317	(89,665)
Total application	1,473,813	485,619
Increase in working capital	$3,754,208	$ 279,749

The appended notes are an integral part of these statements.

OFFICERS:

James I. Kanter, President
Solomon Kanter, Vice President
Alexander J. Kanter, Vice President
Nelson Block, Vice President-Finance & Treasurer
S. M. Kane, Secretary

DIRECTORS:

Samuel M. Kane
Alexander J. Kanter
James I. Kanter
Solomon Kanter
John S. Malmgren, Director of Manufacturing
Richard E. Petersen, Principal, A. T. Kearney and Co.
Clarence J. Ruethling, Vice President (Ret.) First National Bank of Chicago

GENERAL COUNSEL:

Baker and McKenzie
Prudential Plaza
Chicago, Ill.

SPECIAL COUNSEL:

Kane and Kane
10 So. La Salle St.
Chicago, Ill.

CERTIFIED PUBLIC ACCOUNTANTS:

Lybrand, Ross Bros. & Montgomery
141 W. Jackson Blvd.
Chicago, Ill.

TRANSFER AGENTS:

The First National Bank of Chicago
Montreal Trust Company (Winnipeg Branch)

TRUSTEES:

(Debentures)

The American National Bank and
Trust Co. of Chicago